

## 2006 Market Study Regulations and Guidelines

Market Studies 101: Being A Successful Consumer of LIHTC Market Study Research

Adrian Ownby  
916-651-7707  
aownby@treasurer.ca.gov

## Clarifying the Regulations

- ♦ Sections 10322(h)(9) verses 10325(f)(1) and 10326(g)(1).
  - Market Study is considered current if within 6 months.
  - Market Study can be updated if older than 6 months, but less than 1 year old.
  - After 1 year, get a new Market Study.

## Key Regulations 1

- ♦ Sections 10325(f)(1)(B)(i)-(iii) and 10326(g)(1)(B)(i)-(iii).
  - Highest rents are 10% below prevailing market rents.
  - Value ratio of units with the highest rents are At or Below prevailing market value ratios.
  - Rural 3-and 4-bedroom units are 20% below prevailing market rents for SF homes.

## Implications 1

- ♦ Look for a properly completed market rent comparability matrix for each unit size, specifically:
  - Correct initial max rents.
  - Correct unit size.
  - Comps that are close to the subject.
  - Comps are reasonably adjusted.

## Key Regulations 2

- ♦ Sections 10325(f)(1)(B)(i)(iv) and 10326(g)(1)(B)(iv).
  - 90% occupancy for most SRO and Special Needs by 6 months.
  - 95% occupancy for most Large Family projects by 6 months.
  - 90% or 95% occupancy for 150+ unit projects, and 95% occupancy for all Senior projects, by 1 year.

## Implications 2

- ♦ Look for two items in the market study and cross-check them:
  - A per-month lease-up rate and the assumptions behind it.
  - Turnover capture rates by unit size and AMI target-band that are 40% or less.

## Implications 2: Demand Model

- ♦ TCAC's Market Study demand model requires the analyst to determine:
  1. Number of renter households in the PMA.
  2. Demand among #1 households by unit size.
  3. Proportion of #2 households that will be income qualified at the appropriate AMI targets.
  4. Proportion of those #3 households that would normally seek new accommodations in a year.

## Implications 2: Turnover Capture Rates

- ♦ Capture Rate = # of Units of a specific AMI and Size/#4 Households

## Implications 2: Turnover Capture Rates

- ♦ Example of a project with a problem: 33% of a project's units are 2 BR and the aggregate capture rate for these units is 100%; of those the capture rates are 80% for 30% AMI, 100% for 40% AMI and 120% for the 55% AMI. How will this project rent 95% of their 2 BR units in 6 months or less?

## Key Regulations 3

- ♦ Sections 10325(f)(1)(B) and 10326(g)(1)(B) - last paragraphs.
  - This is an important catch-all caveat: Market studies will be thoroughly assessed and meeting the requirements of (i) through (iv) does not insure approval of your project.

## Implications 3

- ♦ There are two areas that you should review to minimize the possibility of failing to show adequate need and demand:
  - Definition of the Primary Market Area (PMA).
  - Review of existing affordable projects in the PMA.

## Wrap Up

- ♦ Strong Markets Provide Cover for Weak Market Studies.
- ♦ A Good LIHTC Market Study successfully combines two ideas: "Demographics Driving Public Policy," and "Economic Self Interest Driving Capitalism."
- ♦ Questions?